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Report of the Executive Director, a.i., on UNOPS year-end figures for 2002 and projected income, expenditure and level of the operational reserve for 2003 (as of 1 April 2003)

I. Introduction

1. The present report is submitted to the Executive Board through the Management Coordination Committee (MCC) of the United Nations Office for Project Services (UNOPS), pursuant to paragraph 4 of decision 2003/3 of 23 January 2003. It provides final results achieved in 2002 and revised projections for project delivery, income, and administrative expenditure, as well as the level of the operational reserve for 2003.

2. Delivery, income and administrative expenditures are all slightly lower than the targets approved by the Executive Board at its annual session 2002 (DP/2002/CRP.10, ad hoc submission of revised budget estimates for the year 2002). When compared with the preliminary year-end projections presented to the Executive Board at its first regular session in January 2003 in the report of the Executive Director on the implementation of the UNOPS revised budget 2002 (DP/2003/CRP.3), UNOPS has actually achieved better results in all of its business parameters. The level of the operational reserve, carried forward at the end of 2002, has stood at $4.2 million, which is $0.9 million higher than the $3.3 million projected at the annual session in June 2002.

3. The current report provides 2002 year-end results in comparison to the 2002 targets. The 2002 financial data (table 1) and the analysis presented are based on the 2002 annual accounts of UNOPS, which will be reviewed by the United Nations Board of Auditors.

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II. Financial data

Project delivery

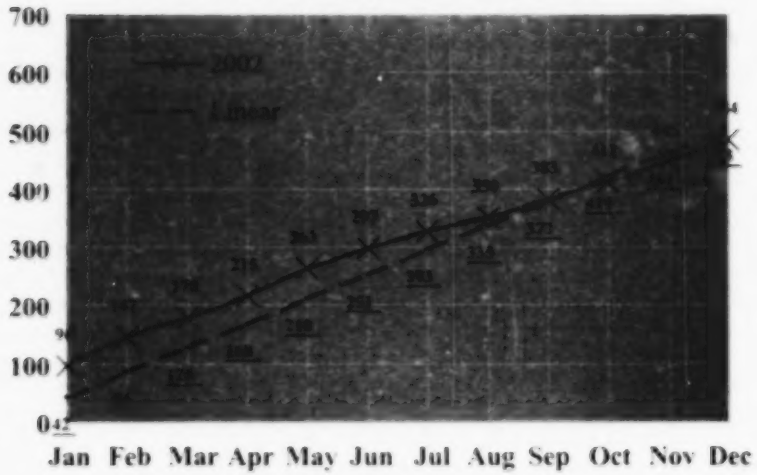
4. The recorded 2002 year-end project delivery reached $485.1 million, which is 96 per cent of the $503.2 million target. As reported to the Executive Board in January 2003, the target would have been fully achieved if one client had not requested to put on hold, in the last months of the year, a procurement action estimated at $18.0 million. However, since UNOPS incurred costs in providing the requested services, it has invoiced the client the cost of services rendered, which has been included in its 2002 income figures.

5. As shown in figure 1, UNOPS remained on track in project delivery throughout 2002 (actually exceeding the monthly linear target for the first nine months) thanks to the focused effort of staff and the detailed planning methodology adopted early in the year. Staff have been exceptionally proactive in taking advantage of new opportunities in project delivery to offset adverse events that had negatively affected some of the planned delivery.

Figure 1

UNOPS 2002

Cumulative delivery versus linear target



*Underlined figures are cumulative targets

6. In addition, systematic monthly delivery monitoring enabled staff to make timely adjustments to prior years' unliquidated obligations. The significance of this achievement is better appreciated when note is taken of the severe strain and pressure faced by UNOPS staff in 2002 owing to a significant reduction of the organization's staff strength. A total of 95 staff (23 per cent)

left UNOPS in 2002, partly as a result of the budget reduction exercise and partly through natural attrition.

7. The 2003 project delivery estimate has been revised to $484.4 million, utilizing a further refined version of the methodology used for the 2002 business plan and budget. This relatively conservative target, which is comparable to the 2002 recorded delivery, comprises 76 per cent of "guaranteed delivery", 21 per cent "hard delivery" and 4 per cent "soft delivery". It also takes into account the uncertainties facing part of the project portfolio of UNOPS as a result of recent world events. While these events are likely to result in new project delivery requests, UNOPS has opted for prudence in deciding not to factor in such opportunities in its 2003 delivery estimates. These estimates will be monitored and updated on a monthly basis.

Income

8. The 2002 year-end total income amounted to $43.7 million or 99 per cent of the $44.3 million approved income target. Project delivery income totaled $35.4 million, or 100 per cent of the target, while income from the service portfolio amounted to $7.5 million, or 96 per cent of the target. Other income amounted to $0.8 million, or 73 per cent of the target, and included $0.6 million from rental of premises. The shortfall in other income is primarily a result of a miscalculation in rental income, which was reported to the Executive Board in the budget update report, distributed as a an information paper at the first regular session 2003, and in document DP/2003/CRP.3.

9. For 2003, total income is projected at $44.5 million, comprising $35.3 million in project delivery income, $8.2 million in service portfolio income and $1.0 million in other income. The increase in service income is a result of a combination of adjustments in International Fund for Agricultural Development (IFAD) supervision and loan administration management fee, and the income expected from services to the Global Fund to Fight AIDS, Tuberculosis and Malaria. Rental income in 2003 is expected to increase to $0.95 million.

Expenditures

10. Year-end 2002 administrative expenditure amounts to $43.5 million, lower than the approved budget of $44.0 million. As reported to the Executive Board in document DP/2003/CRP.3, UNOPS faced higher than anticipated increases in staff costs in some duty stations in the second half of 2002 as a result of the weakening of the United States dollar and post-adjustment increases, which led to an upward revision of the projected year-end administrative expenditures to $44.9 million. As a result, UNOPS implemented further cost-cutting measures that resulted in reductions of various non-staff-related expenditures. Thanks to the organization-wide positive response, the action led to a significant curtailment of expenditures that enabled UNOPS to end the

year with $0.2 million income in excess of recurrent administrative expenditures, reversing the trend over the past two years.

11. At its annual session 2002, the Executive Board approved in its decision 2002/21 a charge of $2.0 million to the operational reserve to cover anticipated staff separation costs resulting from the 2002 UNOPS budget reduction exercise. As a result of the proactive outplacement service of UNOPS and assistance provided by UNDP and other United Nations organizations in identifying suitable assignments, however, only 25 of the 44 staff affected were separated, resulting in a charge of only $1.1 million in 2002. An additional $0.3 million is budgeted to cover separations expected to take effect in 2003. Total separation costs are thus estimated to amount to only $1.4 million, leading to a savings of $0.6 million against the amount approved by the Executive Board.

12. As reported to the Executive Board at its first regular session 2003 in document DP/2003/CRP.3, UNOPS is making $0.6 million (reduced from the reported $0.7 million) provision for a doubtful account in respect of a prior-year receivable. The internal auditors of UNOPS – the UNDP Office of Audit and Performance Review (OAPR) – were requested by the MCC and UNOPS management to conduct a special audit of this account. The auditors concluded that it was appropriate for UNOPS to set aside a provision for this doubtful account. After exhausting all efforts to recover the outstanding account receivable, UNOPS would proceed with write-off procedures under UNOPS financial regulation 10.4.

13. The 2003 administrative expenditure (including any direct charges to the operational reserve), which was finally projected at $45.5 million, posed a major challenge to UNOPS because of significant unavoidable cost increases resulting from:

(a) Salary increases approved by the United Nations General Assembly;

(b) Effects of the depreciation of the United States dollar against some major currencies; and

(c) Costs of the Enterprise Resource Planning (ERP) system.

Regarding budgetary provisions for staff costs, it should be noted that in 2003 UNOPS administrative expenditure must absorb a $3.2 million (14 per cent) net increase for the same level of staffing as at end 2002, owing to salary and post-adjustment increases as well as depreciation of the dollar.

14. The 2003 budget includes a provision of $1.7 million for the ERP system as a replacement of the Integrated Management Information System (IMIS). The Executive Director submitted to the MCC the various options UNOPS had considered and the rationale for the decision to join UNDP (the principal client and service provider of UNOPS both at headquarters and at the country office level) as an ERP development partner, along with UNFPA. The MCC expressed full support for the decision taken. Since $0.7 million of the ERP is a one-time investment cost that could not be covered under the conservative 2003 income estimate, the Executive Director is requesting approval by Executive Board to charge this non-recurring cost to the operations reserve.

Should the 2003 income estimates increase by mid-year, UNOPS intends to charge that amount to the 2003 income and reflect the change in the revised budget submission that would be submitted to the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and subsequently to the Executive Board at its second regular session in September 2003.

15. The above unavoidable cost increases, coupled with a conservatively projected income, made the balancing of income and expenditure in 2003 a formidable challenge. Against this background, the 2003 budget formulation process, which was carried out with the involvement of senior managers, led to a decision to maintain in place a number of the cost-saving measures followed in 2002. Despite the staff hardship explained in paragraph 5, it was agreed to keep 2003 staffing at essentially the same level as at end 2002. Moreover, it was decided to withhold from approval, at this stage, 5 per cent from the temporary assistance budget and 10 per cent from the remaining non-mandatory non-staff budget items. The "withheld budgets" (as well as legitimate additional budget that may be requested by units to respond to new delivery opportunities) would be approved provided that actual income exceeds the projected estimate and the 2003 drawdown of the operational reserve is replenished.

Level of the operational reserve

16. For 2002, the starting balance of the operational reserve was $5.0 million and the projected year-end balance, as approved by the Executive Board in its decision 2002/21, was estimated to be $3.3 million. Based on the year-end levels of income and expenditure, including net transfer from the operational reserve of $1.5 million and credits from prior-year savings of $0.7 million (resulting from the in-depth review of unliquidated obligations recommended by the Board of Auditors), the level of the operational reserve carried over to 2003 is $4.2 million.

17. Starting with a 2003 operational reserve balance of $4.2 million and estimated drawdown of $1.0 million ($0.7 for ERP investment and an estimated $0.3 million in remaining staff separation costs to be charged in 2003), 2003 year-end balance of the operational reserve is projected to be $3.2 million.

Future UNOPS submissions to the Executive Board

18. The 2002 annual accounts will be submitted to the Executive Board at its annual session in June 2003, together with the annual report of the Executive Director 2002 (DP/2003/19). In addition, the revised budget estimates for the 2002-2003 biennium and the budget estimates for the 2004-2005 biennium will be submitted to the Executive Board at its second regular session in September 2003.

Table 1.
Actual project delivery, income and administrative expenditures as of 31 December 2002, and revised estimates of 2003 project delivery, income and administrative expenditures

(in millions of United States dollars)

	Approved revised 2002 estimates [a]	Actual 2002 (as of 16/03/03)	Approved revised 2003 estimates [a]	Revised 2003 estimates
Delivery				
Total project delivery	**503.2**	**485.1**	**513.0**	**484.4**
Income				
~ Income from implementation of project portfolio	35.4	35.4	36.4	35.3
~ Income from "services only"	7.8	7.5 [b]	6.9	8.2
~ Other income (interest and rental)	1.1	0.8	1.4	1.0
Total income	**44.3**	**43.7**	**44.7**	**44.5**
Expenditures				
~ Administrative expenditures	44.0	43.5	43.9	44.5
~ Expenditures approved proposed as a direct charge to the operational reserve				
Separation	2.0	1.1 [c]		0.3 [c]
Provision for doubtful account		0.6		
Partial ERP system investment cost				0.7 [d]
Total expenditure	**46.0**	**45.2**	**43.9**	**45.5**
Movements of the operational reserve				
~ Operational reserve brought forward	5.0	5.0	3.3	4.2
~ Transfer to/from operational reserve	(1.7)	(1.5)	0.8	(1.0)
~ Transfer to operational reserve (savings from liquidation of prior year unliquidated obligations)		0.7		
Operational reserve brought forward	**3.3**	**4.2**	**4.1**	**3.2**

[a] *As approved by the Executive Board in its decision 2002/21.*

[b] *Includes income from purchase orders valued at $18 million, not reflected in the project delivery figure, which the client has put on hold.*

[c] *Represents a total of $1.4 million for separation costs against $2.0 million approved.*

[d] *Represents one-time cost for hardware acquisition out of total 2003 ERP costs of $1.7 million.*